

**Government of the District of Columbia
Office of the Chief Financial Officer**

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CHAIRMAN CROPP

Natwar M. Gandhi
Chief Financial Officer



MEMORANDUM

TO: The Honorable Linda W. Cropp
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer

DATE: DEC 16 2005

SUBJECT: Fiscal Impact Statement: "Fiscal Year 2007 Budget Tax Relief Priorities Act of 2005"

REFERENCE: Bill Number 16-557

Conclusion

The proposed legislation will be subject to inclusion in an approved budget and financial plan. Funds have not been appropriated and allocated for the purposes of implementing the provisions of the proposed legislation. The proposed legislation would result in unbudgeted reductions in local General Fund revenue of approximately \$33.0 million beginning in FY 2007 and \$204.4 million in FY 2007 through FY 2010. Unbudgeted revenue reductions may be made as long as the District's budget and financial plan remains in balance.

The Office of Tax and Revenue estimates that first-year implementation costs would be approximately \$150,000.

Background

The proposed legislation would increase the District's standard income tax deduction and personal exemption beginning January 1, 2007. Currently the District standard deduction is \$1,250 for married taxpayers filing separately and \$2,500 for all others. The proposed legislation would increase these deductions to \$2,000 and \$4,000. In addition, the bill would provide for annual cost-of-living adjustments based on the Consumer Price Index (CPI) for the Washington-Baltimore Metropolitan Statistical Area.

The District's income tax personal exemption amount is currently \$1,500. The proposed legislation would increase the exemption to \$2,400 and also provide for annual cost-of-living adjustments. In addition, the proposed legislation would increase the homestead deduction from \$60,000 to \$63,000 beginning October 1, 2006. The bill would provide for annual cost-of-living adjustments.

The proposed legislation contains provisions that require that if the fiscal effects of the proposed legislation are not included in an approved budget and financial plan, the bill would expire on October 1, 2006.

Financial Plan Impact

Funds have not been appropriated for the purposes of implementing the bill's provisions. District resources could be made available to implement the provisions of the proposed legislation.

The proposed income tax personal exemption amount is estimated to result in a revenue reduction of \$21.6 million in FY2007 and \$133.0 million for FY 2007 through FY 2010.

The revenue reduction for the proposed changes to the standard deduction is estimated to be \$9.2 million in FY 2007 and \$56.2 million for the period of FY 2007 through FY 2010. For a couple at the 9 percent marginal tax level, the tax reduction is \$135 in the first year at current tax rates. A single head-of-household with 7.5 percent marginal tax rate will save about \$113 in the first year. The revenue reduction to the District for both the proposed change to the personal exemption and the proposed change to the standard deduction would be \$189 million for the period of FY 2007 through FY 2010.

The proposed increase of the homestead deduction would cost \$2.2 million in FY 2007 and a total of \$15.2 million for the period of FY 2007 through FY 2010. The proposal reduces the real property tax for each owner-occupied home by up to \$27.60 per year by increasing the value of the homestead credit from \$552 to \$579.60 annually.

The table in Figure 1 presents the revenue reductions as they would impact the financial plan.

Figure 1.

Estimated Revenue Reductions Impacting the Budget and Financial Plan					
(\$ in millions)					
Item	FY 2007	FY 2008	FY 2009	FY 2010	4 - Year Total
PIT Exemption	(\$21.6)	(\$32.7)	(\$37.0)	(\$41.7)	(\$133.0)
Standard Deduction	(9.2)	(13.8)	(15.6)	(17.6)	(56.2)
Homestead Exemption	(2.2)	(3.3)	(4.3)	(5.4)	(15.2)
Net Annual Impact	(33.0)	(49.8)	(56.9)	(64.7)	(\$204.4)

In addition to the estimated reductions in local General Fund revenue, the Office of Tax and Revenue estimates that first-year implementation costs would be approximately \$150,000.